# CHF RESEARCH BULLETIN

# 1

## The 1981 Ontario Rental Construction Loan Program: A Preliminary Evaluation

CO-OPERATIVE HOUSING FOUNDATION OF CANADA
FONDATION DE L'HABITATION COOPÉRATIVE DU CANADA

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# THE 1981 ONTARIO RENTAL CONSTRUCTION LOAN PROGRAM:

# A PRELIMINARY EVALUATION

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## Introduction

High mortgage interest rates have helped create a situation in which economic rents far exceed market rents. That is, the cost of producing new rental units results in rents that are higher than people are either willing or able to afford. As a result, the private sector has dramatically curtailed its production of rental units, except when subsidies from federal or provincial governments can be obtained.

In response to this situation, the Government of Ontario implemented the Ontario Rental Construction Loan Program (ORCL). The program, which was introduced in January of 1981 and terminated, as scheduled, in December of the same year, offered interest-free loans to the building industry in an attempt to stimulate the construction of greatly needed rental accommodation.

This paper provides a preliminary evaluation of the ORCL program, in order to draw some conclusions about its effectiveness and impacts. These conclusions may prove to be of broader national interest, given the similarity between the ORCL program and the Canada Rental Supply Plan, a federal

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initiative announced in the November 1981 budget. A comparison of both programs is provided in the appendix.

The primary source of this similarity lies in the nature of the assistance mechanism built into both housing programs. Each offers assistance in the form of interest-free loans designed to encourage the private sector to build rental accommodation. While differences do exist between the programs in terms of assistance levels, eligibility requirements, and administrative procedures, similarities are strong enough to permit an evaluation of ORCL to lead to a more informed understanding of the potential impacts of the Canada Rental Supply Plan.

**Program Description**

Although the ORCL program was only in effect for one year, it underwent a significant revision during that period largely as a result of a rise in interest rates. Originally, when mortgage interest rates were 14% to 15%, ORCL offered a 25-year interest-free loan of $4,200 per unit. The Ontario government allocated $42 million to the program at this time.

However, when interest rates reached 18% to 19% in June, the interest-free loan was raised to $6,000 per unit, and the total funding for the program was increased to $90 million. In addition, a number of other significant changes were made to the program. A list of these changes, as well as a complete description of the guidelines and objectives of the Ontario Rental Construction Loan Program can be found in Table 1.

While rising interest rates seemed to play the major role in precipitating changes to the program it is possible that political factors may have added an additional impetus. The various modifications were made just over a week before the 1982 provincial election. Even the timing of the original program, which was announced just over two months prior to the election, led observers such as John Sandusky, President of the Toronto Homebuilders Association, to describe ORCL as an "election reality".[1]

**TABLE 1**

**The Ontario Rental Construction Loan Program, 1981**

| Original Program | Revised Program |
|---|---|
| o $42 million allocated to program | o $90 million allocated to program |
| o Supply target 10,000 units | o Supply target 15,000 units |
| o 35,000 person-years of employment to be generated | o 52,500 person-years of employment to be generated |
| o Maximum assistance loan $4,200 per unit | o Maximum assistance loan $6,000 per unit |
| o Repayment of loan to begin in 11th year of 25-year agreement | o Repayment of loan to begin in o 16th year of 25-year agreement |
| o Repayment period 15 years | o Repayment period 10 years |
| o Assisted housing requirements 15% of all units | o Assisted housing requirements 20% of all units |

- o Assistance given in the form of a 25-year interest-free loan
- o Where local need existed, units had to be provided for the disabled
- o Project costs had to fall within CMHC's maximum unit prices
- o Area must have a vacancy rate of 3% or less to be eligible
- o Rental projects had to contain at least six units
- o Adult only buildings, condominiums and private, public and co-operative non-profit projects were not eligible

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**Sources of Subsidy**

In order to close the gap between economic rents and market rents, housing programs can take advantage of a variety of subsidy mechanisms. ORCL, like the federal Assisted Rental Program of the mid 1970's, not only offered investors interest-free loans but also allowed them to capitalize on tax incentives outlined in the Federal Income Tax Act. Through this stacking arrangement, ORCL investors could benefit from subsidies offered from a number of sources:

- Interest foregone on interest-free loans. Under both the original and revised versions of the program, interest-free loans were given out for a term of 25 years. The interest foregone on this loan over the 25-year period represents one source of subsidy in the ORCL program.

- Accelerated depreciation through the Capital Cost Allowance. Owners of rental buildings such as those produced under ORCL, were eligible under the Income Tax Act to deduct depreciation expenses (capital cost allowances) at a rate which exceeds actual depreciation. While this allowance must be paid back when a building is sold, the tax saved on the CCA is the same as an interest-free loan. The foregone interest on this amount is another source of subsidy associated with the ORCL program.

- MURB tax shelters. Under the Capital Cost Allowance provisions of the Income Tax Act, Multiple Unit Residential Buildings (MURBs) were identified as a special class of asset. Investors in MURBs were allowed to deduct their Capital Cost Allowance losses from other income for taxation purposes. ORCL investors with high marginal tax rates, therefore, were able to shelter some of their income from taxation by tying in to the MURB provisions. The tax exemptions that could be achieved through this tie-in with MURBs is another source of subsidy available to those who participated in the ORCL program. This subsidy was so attractive to investors that in the three months prior to the cancellation of the MURB provisions, a tremendous increase in construction starts under the ORCL program took place.

- Deductibility of Soft Costs. A final source of subsidy available to ORCL investors can be

found in the provisions concerning the deductability of soft costs (e.g., architect fees, interest during construction, etc.). Under these provisions, investors in syndicated new rental buildings were allowed to deduct soft costs from income in the taxation year they are incurred, rather than having these costs capitalized in the building value and depreciated over time. The interest lost by the government through these provisions represents a further source of subsidy.[2]

Many of the subsidies listed above do not stem directly from the terms of the ORCL program itself. Instead, they have their origin in tax incentives built into the federal Income Tax Act. However, this does not suggest that they should be excluded from an evaluation of ORCL. Unless developers already owned serviced land, the ORCL loan subsidies were usually not large enough to stimulate rental construction on their own. The loan levels were explicitly designed to be stacked with the various tax breaks available from the federal government, in order to comprise a financial package attractive enough to stimulate construction.

As a consequence of this arrangement, however, many of the benefits from the supply side of the ORCL program have gone to investors with high marginal tax rates. These investors purchase ORCL projects with MURB certificates solely on the basis of the tax shelter aspects of the asset. This fact is cause for concern over how the benefits of such programs are distributed.

**Cost to the Government**

As with any program, an evaluation of its impact must consider the degree of government support required to achieve these results. In order to evaluate the effectiveness of ORCL, therefore, the cost of each of the subsidies listed above must be calculated. A City of Toronto Housing Department report titled Housing Subsidies to Private Developers (January 18, 1982) performed this analysis and produced the following results:

- Interest-foregone on ORCL loan gives subsidy of 5.6% of capital cost of project. The study determined that the ORCL subsidy component of the total subsidy package is the equivalent of

a cash grant of $4,529 per unit. Using cost estimates consistent with the restrictions of ORCL from several projects, it was found that this subsidy represents 5.6% of the capital cost of the project.

The subsidy costs of the various federal income tax incentives are more difficult to calculate due to the fact that they are a direct function of the income from all sources of the ORCL investor. Nevertheless, estimates of the value of these subsidies have been generated by using some reasonable assumptions about investor income.

- <u>CIPREC puts value of federal tax incentives at 25 - 30% of project cost</u>. In a brief submitted to the federal government, the Canadian Institute of Public Real Estate Companies estimated that the value of federal tax incentives was approximately 25 - 30% of project cost. Of this figure, the deduction of capital cost allowance accounted for 8 - 10%, the deductability of soft costs 12 - 14%, and interest expense provisions 5 - 6%.[3]

To complete a meaningful analysis of the cost of the ORCL program to the public purse, a relative measure is needed which contrasts the costs of ORCL to those of other housing programs. In this case, data is available from the City of Toronto Housing Department, which compares the subsidy costs of ORCL with those of the federal government's private, public and co-operative non-profit housing programs. The comparison is facilitated by the fact that ORCL units have to fall within the maximum unit prices established under these programs. In comparing the programs, it was found that:

- <u>ORCL is slightly less expensive than the non-profit program</u>. Once again based on 1981 cost estimates from several projects, it was determined that the total ORCL subsidy (including federal tax incentives) is equivalent to a per unit grant of $30,669. This compares to a $31,438 per unit grant for a non-profit project, a difference of $769 (2.5%) per unit.[4]

**Impacts of ORCL**

Before any conclusions can be drawn about the ORCL program, the real impacts it generated in trying to meet its objectives must be examined. These impacts can be classified under the headings of supply, affordability, and special housing needs.

**a) Supply**

One of the major objectives of ORCL was to increase the supply of rental housing. The Ministry of Municipal Affairs and Housing records that 16,715 construction starts have taken place under the ORCL program as of April, 1982. However, using the Ministry's definition of "starts", it is difficult to foresee how many units will actually be completed. Fluctuations in interest rates and changes in tax shelter subsidies could reduce this number. The category with the highest potential rate of cancellation is perhaps those units "started" in the last three months of the year in order to beat the MURB cancellation deadline (December 31, 1981).

Another difficulty stems from the problem of determining the number of units which would have been built even without the ORCL program. While many ORCL applications were turned down because the project's feasibility did not depend on ORCL assistance, it is possible that a number were accepted that may have been constructed anyway.

Despite these factors, ORCL has been generally successful in terms of its objective of increasing the supply of rental housing. Developers and investors did take advantage of the program to build rental units. However, concern can be raised about the results achieved by ORCL in stimulating construction in some of the province's tightest rental markets. This is especially true for the municipalities originally singled out by the Minister of Housing when the program was announced: Metro Toronto, Hamilton, Kitchener, Sudbury and Thunder Bay. (For a copy of the press release announcing the program, see the appendix.)

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An examination of Table 2, which outlines the percent of ORCL starts in the larger Ontario municipalities, leads to the following conclusion:

- ORCL has had limited impact on many of the municipalities in which the rental crisis is most severe. Although it was promised that ORCL would stimulate rental construction in areas with particularly tight vacancy rates, it has generally failed to do so. The City of Toronto, for example, with 6.9% of the provincial population and a vacancy rate of 0.4%, only received 0.2% (41 out of 16,715) of the total number of starts under the program.

Perhaps an even more obvious example of the very poor location of ORCL subsidized rental starts is the program's performance in Metro Toronto. It was originally announced that approximately half of the units would be produced in Metro Toronto. As of April, 1982, approximately 1,350 units, or only 8% of the total, had been started in Metro Toronto. This represents a shortfall in ORCL's objective of apprimately 7,000 units.

**b) Affordability**

Supply considerations were not the sole objective of ORCL. In addition, the units constructed under the program were to be targeted for low to moderate income households. A number of mechanisms were incorporated into the program in order to achieve this objective:

- Control exerted over the initial year rent levels in ORCL projects. Under ORCL, owners were required to enter into an agreement with the Ontario Mortgage Corporation (OMC) over the level of rent to be charged in the first year of the project. This was done to ensure that the units would be marketable and affordable for moderate income households.

- Units had to fall within CMHC's Maximum Unit Prices. As a further method of attempting to ensure that assistance offered through ORCL did not go towards producing units which would be beyond the means of moderate income households, restrictions were imposed on construction costs through the use of CMHC's

Maximum Unit Prices (MUPs). The MUPs are designed to represent a realistic cost for modest sized housing with limited amenities (a list of the applicable MUPs can be found in the press release in the appendix.)

- <u>Projects required to have an assisted housing component.</u> Under the terms of the revised ORCL program, 20% (15% in the original version) of the units in any given project had to be offered as assisted housing under the Rent Supplement Program if a local need could be shown to exist.

It was also hoped that ORCL would have an indirect influence on the affordability of rental accommodation in general by increasing the supply.

How effective are these measures in controlling the rents charged in ORCL projects? While actual rent data could not be obtained for projects under the ORCL program, some preliminary conclusions can be drawn regarding the effectiveness of these affordability controls:

- <u>ORCL owners free to raise rents in later years of project.</u> Although OMC exerted control over the rent levels to be charged in the first year of operation, ORCL owners are free to increase rents in future years. With such low vacancy rates in many housing markets, there is little incentive for owners to continue to charge moderate rental rates. This has been the experience of other private production subsidy programs such as the Assisted Rental Program (ARP). After the initial year of operation, rents in ARP projects have risen to levels up to 50% higher than average market rents.[5]

- <u>Insensitive Maximum Unit Prices (MUPs) have failed to produce affordable housing in some areas.</u> Under the ORCL program, the province was divided into two regions, each with its own set of MUPs. However, because the MUPs applied to such large regions, they were insensitive to variations in local market conditions. As a consequence, they frequently failed to act as a constraint on the cost of the housing produced under ORCL. In other areas, such as the City of Toronto, the MUPs were too restrictive, and thus prevented units from being built.

## TABLE 2

## ORCL Construction Starts in Selected Municipalities

| Municipality | Vacancy Rate | % of Total Ontario Population | % of ORCL Starts |
|---|---|---|---|
| Brantford | 2.0 | 0.9 | 1.0 |
| Guelph | 1.8 | 0.9 | .03 |
| Hamilton | 1.1 | 3.6 | .07 |
| Kingston | 1.3 | 0.6 | 4.5 |
| Kitchener | 1.6 | 1.6 | 5.5 |
| London | 2.6 | 3.1 | 10.2 |
| Oshawa | 1.2 | 1.4 | 1.3 |
| Ottawa | 0.4 | 3.6 | 8.9 |
| Sault Ste. Marie | 2.5 | 1.0 | 5.3 |
| Sudbury | 2.0 | 1.1 | 1.3 |
| Thunder Bay | 2.0 | 1.3 | 1.6 |
| Toronto (city) | 0.4 | 6.9 | 0.2 |

SOURCE: Ontario Ministry of Municipal Affairs and Housing

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- No guarantee that assisted housing units will be supplied. While project owners are required to make 20% of the units available to local housing authorities under the Rent Supplement Program, there is no guarantee that these units will actually become available to low income households. In some cases, local housing authorities have been unwilling to accept the units because they did not match the needs of the municipality in terms of either location, unit size, or time of availability. The Ministry of Municipal Affairs and Housing confirms that, as of April, 1982, 550 assisted units have been provided through ORCL and that 400-500 more will be available this year. If this proves to be the case, only 6.3% of ORCL units will be made available to low income households on rent supplement.

c) **Special Housing Needs**

Under both the original and revised versions of the ORCL program, appropriately designed units were to have been made available to disabled persons where local needs warranted such provisions. While data on how many of these units have actually been provided is currently unavailable, a factor which may determine the extent of this impact can be identified:

- No formal mechanisms exist to ensure that the needs of special groups are met. In their 1981 study on ORCL, the Housing Department of the City of Toronto found that although ORCL stated that specially designed units should be made available, no formal mechanisms had been incorporated into the program to ensure that this actually took place.

**Conclusion**

While the final impact of the ORCL program cannot, as of yet, be fully demonstrated, the following conclusions can be drawn based on the program's regulations and on the performance of the program as of May, 1982:

1. **Subsidies poorly targetted**

   There are several forms of subsidies available through the ORCL program and the income tax system. Most of these subsidies are going to investors in high tax brackets. The higher the tax bracket, the greater the subsidy.

2. **Private capital investment at public expense**

   The dollar value of the interest-free loan portion of the subsidy is estimated to be equal to about 5.6% of the capital cost of a project (about $4,500 per unit). The total subsidy available to ORCL investors through the interest-free loans and the federal tax incentives can represent roughly 30% to 35% of the capital cost of the project. Public subsidies are, therefore, paying for about 1/3 of the cost of a private capital investment with very few strings attached.

3. **No long-term controls on affordability**

   Except in the initial year, there are no mechanisms by which to control rent levels. The imposition of maximum unit price levels to guarantee construction of modest quality housing is an inadequate method unless there is a competitive rental market (i.e. vacancy rates of 3 to 4%).

4. **Very small assisted housing component**

   In view of the high subsidy levels, it is not unreasonable to expect a significant proportion of the units to be allocated to low income households on local housing authority waiting lists. It appears that even the modest 20% requirement will not be achieved.

5. **Poor locational distribution of ORCL units**

   ORCL units have not been built in the localities with the more severe shortage of rental units. This may, in part, account for the small percentage of units allocated to low income households under the rent supplement program. That is, there may be limited demand for assisted units in the communities in which ORCL units are being built.

6. **ORCL is only slightly less expensive than units built under the non-profit housing programs**

   An analysis carried out by the City of Toronto of ORCL units stacked with MURB tax subsidies indicates that the total subsidy levels are similar to those under the federal non-profit programs. Units built by municipal non-profit and non-profit housing co-operatives would have achieved ORCL's objectives more thoroughly.

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## NOTES AND REFERENCES

1. The Globe and Mail, December 31, 1980.

2. For further details on the tax shelter aspects of the capital cost allowance and of MURBS, see: Clayton Research Associates (1981) Tax Expenditures - Housing, Ottawa: CMHC.

3. Canadian Institute of Public Real Estate Companies (1982) Shortage of Rental Housing, Toronto (a brief submitted to the federal government, April 28).

4. Toronto City Housing Department (1982) Housing Subsidies to Private Developers, (a report from the Commissioner of Housing to the Neighbourhoods Committee, January 18).

5. Canada Mortgage and Housing Corporation (1980) An Analysis of the Market Forces Behind the High ARP Default Experience, Ottawa: CMHC, Market Forcast and Analysis Division.

# APPENDIX

**A Comparison of the**

**Ontario Rental Construction Loan Program (ORCL)**

**and the**

**Canada Rental Supply Plan (CRSP)**

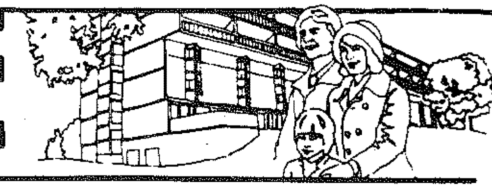
(revised ORCL program data in parentheses)

| Program Characteristic | ORCL | CRSP |
|---|---|---|
| Assistance mechanism | Interest-free loan secured by 2nd Mortgage | Interest-free loan secured by 2nd Mortgage |
| Mortgage Term | 25 years | 15 years |
| Repayment Period Begins | 11th year of agreement (16th year of agreement) | 15th anniversary of the interest adjustment date of the 1st mortgage |
| Length of Repayment Period | 15 years (10 years) | Must not exceed remaining amortization period of 1st mortgage |
| Maximum Assistance Level | $4,200 per unit ($6,000 per unit) | $7,500 per unit |
| Supply Target of Program | 10,000 units (15,000 units) | 30,000 units |
| Assisted Housing Requirement (under Rent Supplement Program) | 15% of units (20% of units) | 33% of units |
| Units for the Disabled | Special units "should" be made available, but not required | 5% of units must be designated for disabled. |

Ontario

Ministry of
Municipal Affairs
and Housing

OUTLINE



# Ontario Rental Construction Loan Program

The Ontario Rental Construction Loan (ORCL) program, which takes the form of interest-free loans to the private market rental industry, is designed to stimulate rental construction, primarily in areas with low rental vacancy rates.

ORCL was introduced because of a shortage of rental accommodation, and to combat a decline in private rental construction activity.

Interest-free loans are available to assist in the provision of rental housing within specific price limits, and to help bridge the gap between what a landlord would have to charge in rent to make a project viable, and market rent levels.

The second mortgage loans per eligible unit range between $4,200 and $6,000, depending on the final first mortgage interest rate for the project (see over). The loans are for a term of 25 years with repayments scheduled to begin in the 16th year.

Three thousand dollars of the loan will be paid when a project reaches the roof stage and the remainder after the final first mortgage interest rate has been established and the project is completed.

For privately-financed projects, the loans will be based on the then-current Sect. 58 National Housing Act rate.

## Objectives

The interest-free loan assistance is designed to:

- Stimulate the construction of some 15,000 rental housing units in Ontario.
- Generate some 52,500 man-years of employment directly and indirectly in the construction and related industries.
- Ensure that privately developed and managed rental units are stimulated in areas with low vacancy rates.
- Encourage builders to ensure that some units are designed specifically for the disabled, where a definite need is shown.
- Make available some rent-geared-to-income units for eligible low-income families, senior citizens and individuals where there is a local need.

## Locations

The interest-free loan program is intended for municipalities with rental vacancy rates of three per cent or less. The assistance is also available in smaller and rural communities where rental units are needed.

Consideration may be given to applying the program in other areas if special circumstances exist. For example, a municipality with an overall rental vacancy rate of above three per cent may have pockets of extremely low vacancy rates.

(Canada Mortgage and Housing Corporation April 1981 vacancy rates for privately-initiated rental units — Hamilton 1.1 per cent; Kitchener 1.6; Oshawa 1.2; St. Catharines/Niagara 1.9; Sudbury 2; Thunder Bay 2; Toronto .4).

## Unit eligibility

The program applies to new rental construction projects and to existing non-residential properties such as schools or commercial buildings which are being converted to private rental accommodation, providing they meet certain conditions:

- New construction projects must contain at least six units.
- Participants are required to offer up to 20 per cent of the units in any rental complex—not to exceed 25 per cent of the units in any one building—to the local housing authority responsible for managing assisted housing in the community. Where there is a local need, those units will be allocated to eligible low-income families, senior citizens and individuals on a rent-geared-to-income basis under the ministry's rent supplement program.
- Residential units in new mixed residential/commercial or retail projects may also qualify.
- Where local needs warrant, appropriately-designed units should be made available to disabled persons.
- Units must fall within maximum unit prices, which may be revised periodically.

New construction projects are eligible, if footings or other base supports are in place at least prior to Jan. 1, 1982, or if the project was not above ground level on Jan. 29, 1981.

The program does not extend to "adults-only" buildings, condominium projects, non-profit or co-operative housing developments.

## Maximum costs

Maximum unit prices have been established to ensure the assistance does not go toward the cost of "luxury" accommodation.

# News release

Ontario

Ministry of Housing
Queen's Park
Toronto, Ontario

Release: 9:30 a.m.
January 29, 1981
Refer to: D. Haley
(416) 965-9242

A $42 million provincial no-interest loan program to stimulate private rental construction in areas of low vacancy rates was announced today by Housing Minister Claude Bennett.

The Ontario Rental Construction Loan (ORCL) program, which takes effect immediately, will provide an interest-free loan of $4,200 per unit towards the construction of rental housing within specified price limits.

"We are optimistic that this program will result in as many as 10,000 rental housing starts this year," Bennett said.

"In addition to relieving the growing shortage of rental housing accommodation, this program has the potential for generating 35,000 man-years of employment in the construction and related industries," he added.

"Further, where there is a definite local need shown, we will expect that specially-designed units for the handicapped are included in the plans," he said.

Builders will also be required to offer up to 15 per cent of the units in any complex to the local housing authority responsible for managing assisted housing in the community. If there is a need for rent-geared-to-income housing, these units would be allocated to eligible low-income families, senior citizens and individuals who require rental assistance.

"To ensure that the new rental accommodation is available to those who need it most, the program will not be extended to 'adult only' buildings nor, obviously, to what could be classed as 'luxury' accommodations," said Bennett.

"The loans will be an incentive to get rental projects off the ground, in low-vacancy areas such as Metro Toronto, Hamilton, Kitchener, Sudbury and Thunder Bay," said Bennett. "The assistance will also be available in smaller and rural communities where a need exists for rental housing.

"We have consulted with representatives of the construction industry, lending institutions and the mortgage insurance business during the development of the program and have been gratified by their positive responses," Bennett said.

The program, to be administered by Ontario Mortgage Corporation, will operate with a minimum of red tape. "We are limiting our regulations in order to allow the private sector the greatest possible flexibility to ensure the units consumers require will be built as quickly as possible.

"We are providing the interest-free loans. It will be up to the developers, the lenders and the mortgage insurance people to see how these funds can best assist developers to come in at market rents," he said.

(more)

New construction projects must contain at least six units to be considered for the program. In order to qualify for loans, units must fall within maximum prices established by Canada Mortgage and Housing Corporation for non-profit housing last October.

For Metro Toronto, Mississauga and northern Ontario, north of the French River, the maximum unit prices are as follows: one-bedroom, $44,500; two-bedroom, $48,500; three or more bedrooms, $53,000. For the remaining areas of the province, the maximum prices are $40,000, $44,000 and $47,500 respectively.

The loans will also be made when existing non-residential properties such as schools or commercial buildings are being converted to private rental accommodation.

"We are committed to encouraging the better use of existing properties, and in some downtown areas, there is great potential for this type of conversion," Bennett said.

The program will not apply to condominium projects, non-profit, or co-operative housing developments.

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# Interest-free builder loans studied

By JACK WILLOUGHBY

Ontario Government housing officials are in the formative stages of designing a proposal to provide interest-free builder loans on new apartment projects to get rental production rolling in tight markets.

John Burkus, executive co-ordinator of policy and program development for the Ontario Ministry of Housing, said the Government will canvass the opinion of key businessmen and forward a package to Cabinet in mid-January. If the program is approved, it would be implemented soon after to get the stimulative impact as soon as possible.

The loans would help offset high interest rates, which make the production of rental units uneconomic while rent controls are in effect. One approach would be to give interest-free loans to all classes of builders in Ontario centres where 3 per cent or less of the total rental space is vacant, he said.

Claude Renaud, director of business development at Mortgage Insurance Co. of Canada, Toronto, said the province is also talking about restricting the subsidy to cover no more than $200 a month in the unit costs of construction with a ceiling on the total cost of a building that could qualify for a loan.

He disagreed with the idea of such a cost ceiling because once applied it would eliminate apartment construction in downtown Toronto and force construction into the suburbs. High land prices make downtown construction much more expensive.

Mr. Renaud said the proposal would again make the federal Multiple Unit Residential Building tax incentive effective as a construction incentive in the current high interest rate market. The province's proposal would help bring apartment construction in Ontario up from the level of 15,000 units a year, the rate since 1979, he said.

Apartment construction has suffered in the current environment. Canada Mortgage and Housing Corp. reported that the seasonally adjusted annual rate for apartment construction starts across the country in December

## BUILDING AND REAL ESTATE

dropped to 52,400 multiple units, from 66,300 in November.

Not all house builders are happy with the province's proposal. John Sandusky, former president of the Toronto Home Builders Association, has called the proposal an election ploy and has advocated the removal of rent controls to avert the critical shortages in rental space. Rent control forces landlords to justify any increase above 6 per cent to the Government in all but new projects.

The full details of the province's proposal have not been worked out yet, but Mr. Burkus said the interest-free loan would effectively write down the interest rate for long term financing on new apartment projects to about 11 per cent from the current 17 per cent range.

The loans would likely be repayable over a period of up to 10 years and would provide builders with the tax advantages of claiming interest rather than the possibility of paying tax on a grant, Mr. Burkus said.

Mr. Renaud said these interest-free loans would likely be graduated, giving borrowers smaller amounts each successive year. Then there would be a lull before repayment would start — probably 10 years after the loan was first issued.

Initial projections indicate such a subsidy would result in construction of 5,000 units for the province this year in markets that sorely need the stimulus provided by construction of rental housing. Metropolitan Toronto would qualify as one of these distressed centres.

The dramatic escalation in mortgage rates has all but eliminated the beneficial effects of the federal Government's renewal of its MURB subsidy, which was expected to add an extra 10,000 units in 1981.

Mr. Burkus said the provincial proposal, as it now is envisaged, could be added to the federal MURB package to provide a rate of return that makes construction possible in today's climate.

High interest rates contribute to the high construction costs of Metropolitan Toronto apartments. The associated total costs of building a new unit in Metropolitan Toronto mean a builder would have to charge $700 on a two-bedroom apartment to break even, in a market where the prevailing monthly rent is $480.

Mr. Burkus said builders would likely be required to make 20 per cent of the units in their project available for the Government's rent-geared-to-income program, which in turn would sublet these units to families in need of rental accommodation.

Both the federal Government and the province share the costs of bringing these subsidized units up to market.

It is not clear who would administer the proposal if it is approved. Provincial officials would like to see the lenders help by lending to builders at the subsidized rate and going to the province for the difference, but this may not be possible. Lenders have normally balked at taking responsibility for handling provincial programs, but their reaction remains to be seen. A top level meeting between businessmen and housing officials is expected Monday.

Another alternative would be to have the builders pay the full rate and have the province lend directly to them in order to offset the high costs of construction.

JANUARY 9, 1981

FRONT PAGE, TOP HEADLINE, 3 DAYS BEFORE THE PROVINCIAL ELECTION

# Aid schemes could bring Metro 10,000 rental units

MAR. 16, 1981

TORONTO STAR MARCH 16, 1981

By Pat McNenly Toronto Star

As many as 10,000 badly needed Metro area apartment units and tens of thousands of new jobs could be created out of recent federal and provincial rental housing assistance schemes, says a major Canadian developer.

J. Richard Shiff, chairman of Bramalea Ltd., said in an interview yesterday his firm alone probably will build more than 1,200 rental units in the Metro area, providing jobs for 5,000 people over the next two years, as a result of the two government programs.

He was referring to tax breaks for investors in rental apartments provided in last fall's federal budget, and interest-free loans to stimulate apartment construction introduced this year by the Ontario government.

The province announced its \$42 million loan program on Jan. 29 and last week Premier William Davis said an additional \$21 million was being pumped in because the original amount had been snapped up by builders. The provincial program covers a total of 15,000 new units.

Shiff said the combined programs should make a big dent in Metro's housing crisis and — if continued beyond present limits — create enough new rental housing in Metro to remove the need for rent controls.

Bramalea, a Canadian-owned company with assets of more than \$500 million, in addition to building homes and apartments, operates shopping centres, industrial parks and office towers, owns major hotels and holds 6,800 acres of developable land, two-thirds of it in Ontario.

The vacancy rate for Metro apartments hit a low of 0.6 per cent last fall, the worst apartment shortage since the immediate postwar years.

Senior federal housing officials have said that rent controls wouldn't be necessary in Metro if the vacancy rate rose above 3 per cent and normal competition took over to keep rents down. Controls apply only to those apartments built before Jan. 1, 1976.

Rental construction has practically ground to a halt in Metro in the past few years as a result of high interest and building costs.

The government assistance to get

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# 10,000 rental units predicted for Metro

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rental apartments built comes at a time when Metro house prices have begun to take off because of the shortage of rental apartments coupled with a drastic cut in the inventory of unsold new homes in the Metro area.

"I am glad the province has recognized the terrible imminent crisis and has seen fit to get more rental housing produced," said Michael Galway, executive director of the Canadian Institute of Public Real Estate Companies, which represents most of Canada's major developers and major mortgage lenders. "Let's hope we get enough built so we don't need rent controls and don't have to continue to have these bail-outs."

The federal scheme, known as MURBS (for multiple unit rental buildings), gives a tax shelter to high-income people investing in rental projects, while the Ontario program provides a $4,200 per unit interest-free loan, which, in effect, reduces current interest rates of around 16 to 18 per cent to 13 to 14 per cent for the first five years.

Shiff said the government assistance won't help apartment construction in the city of Toronto because of the high cost of land. But it should result in new rental housing in Scarborough, North York and Etobicoke, as well as in municipalities bordering on Metro. He said he plans to go ahead with five buildings with a total of 1,240 rental units.

Builders say the government schemes are of help mostly to developers holding serviced land.

"For anyone who has zoned land it's the only ball game in town," said Herb Stricker, president of Heathcliffe Developments Ltd. and treasurer of the Urban Development Institute.

Stricker, a medium-size developer, said he has a site now going through rezoning and is trying to decide whether to go ahead with a condominium project or to build rental units under the programs.

However, several of the giants in the Metro apartment building and rental field weren't enthusiastic about building rental projects under the new programs.

Neil Wood, president of Cadillac Fairview Corp., said there is still a big gap between the rental rates possible under the schemes and the cost of putting up a new building. "I would be surprised to see a large volume (of new rental units produced) unless rent controls are removed," Wood said.

**Two views:** Developer Neil Wood, left, doesn't expect a boom in apartment construction but J. Richard Shiff is more optimistic.

Harold Green, a partner in Greenwin Property Management, which owns and operates up to 15,000 rental units in Metro, also remarked on the "still considerable spread" between the subsidy and actual costs of building in Metro. "Somebody's picking it up (the $63 million provincial subsidy). As fast as they announce it, someone grabs it," he said.

Noting he no longer has an unsold built house and buyers are now ordering new homes from plans, Shiff said the crisis in rental apartment is shifting to new home construction.

Bramalea executive vice-president Ben Swirsky advised that "people in a frenzy to buy shouldn't be misled" by today's shortage because more housing will be built. But it will cost more. "There's no question housing is getting more expensive and we have to accept this," he said.

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